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PAGE 01 EC BRU 00520 01 OF 03 252106Z

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INFO OCT-01 ISO-00 EB-11 SS-20 NSC-10 NSCE-00 SSO-00 SCI-06

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STATE ALSO FOR T/IEP

E.O. 11652: N/A

TAGS: ENRG, EEC, XF

SUBJECT: EC COMMISSION PAPER ON COOPERATION AGREEMENTS WITH
OIL PRODUCERS

REF: EC BRUSSELS 482

1. THE FOLLOWING IS THE MISSION'S INFORMAL TRANSLATION OF
THE TEXT OF THE PAPER WHICH THE COMMISSION FORWARDED TO

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PAGE 02 EC BRU 00520 01 OF 03 252106Z

THE COUNCIL ON JANUARY 24 PROPOSING A COMMUNITY POLICY ON COOPERATION AGREEMENTS WITH OIL-PRODUCING COUNTRIES (REFTEL). WE OBTAINED A COPY OF THE PAPER ON A CONFIDENTIAL BASIS.

2. TITLE: THE RELATIONS OF THE COMMUNITY WITH ENERGY-PRODUCING COUNTRIES. BEGIN TEXT. IN THEIR MEETING AT COPENHAGEN ON DECEMBER 14-15, 1973, THE CHIEFS OF STATE OR GOVERNMENT "CONFIRMED THE IMPORTANCE WHICH THEY ATTACHE TO ENTERING INTO NEGOTIATIONS WITH OIL-PRODUCING COUNTRIES ON COMPREHENSIVE ARRANGEMENTS COMPRISING COOPERATION ON A WIDE SCALE FOR THE ECONOMIC AND INDUSTRIAL DEVELOPMENT OF THESE COUNTRIES, INDUSTRIAL INVESTMENTS, AND STABLE ENERGY SUPPLIES TO THE MEMBER COUNTRIES AT REASONABLE PRICES."

3. SINCE THEN THE COUNCIL HAS RECEIVED FROM THE COMMISSION A WORK PROGRAM TO BE CARRIED OUT IN THE FIELD OF ENERGY WHICH INCLUDES, NOTABLY, PROPOSALS FROM THE COMMISSION REGARDING COOPERATION WITH OIL-PRODUCING COUNTRIES IN THE FRAMEWORK OF COMMUNITY POLICY.

4. IN ITS EARLIER COMMUNICATIONS ON COMMUNITY ENERGY POLICY, THE COMMISSION HAD ALREADY EMPHASIZED THE NECESSITY OF NEGOTIATING COMMUNITY AGREEMENTS FOR COOPERATION WITH ENERGY-PRODUCING COUNTRIES ON THEIR PART. DIFFERENT PRODUCING COUNTRIES HAVE EXPRESSED THE DESIRE TO SEE THIS TYPE OF COOPERATION WITH THE COMMUNITY, AS SUCH, ESTABLISHED.

5. THIS POLICY ASSUMES, OF COURSE, THAT EFFICIENT INTERNATIONAL COOPERATION IN OTHER BODIES WOULD PREVENT A PROGRESSIVE DETERIORATION OF INTERNATIONAL ECONOMIC RELATIONS. AT THE PRESENT TIME, THE ECONOMIC PERSPECTIVES OF THE NON-OIL-PRODUCING LDCS HAVE BEEN GREATLY AFFECTED; ECONOMIC EQUILIBRIUM BETWEEN DIFFERENT PARTS OF THE WORLD--ALREADY SO UNSATISFACTORY--CAN THUS DETRIORATE IRREVOCABLY. AMONG OTHER THINGS, THE REPERCUSSIONS OF THE RAPID AND CRITICAL EVOLUTION OF PETROLEUM PRICES AND THE RAMIFICATIONS OF THIS PHENOMENON IN THE WHOLE OF ECONOMIC LIFE CAN LEAD TO CHAIN REACTIONS WHICH WOULD BE EXTREMELY DIFFICULT TO MASTER. THE SITUATION OF DIFFERENT CATEGORIES OF COUNTRIES

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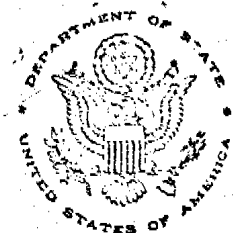
COULD BE AFFECTED SO GREATLY THAT THEIR CAPACITY TO CARRY OUT CONSTRUCTIVE POLICY WOULD BE GRAVELY AFFECTED AND THAT AN EFFICIENT DEVELOPMENT POLICY WOULD BE ALMOST IMPOSSIBLE. THESE IDEAS REGARDING COOPERATION WITH THE OIL-PRODUCING COUNTRIES ARE BASED ON THE HYPOTHESIS THAT SUCH AN UNDESIRABLE EVOLUTION CAN BE AVOIDED BY APPROPRIATE ACTIONS. IN THE OPINION OF THE COMMISSION, THIS COOPERATION SHOULD AIM AT CREATING CONSTRUCTIVE FORMS FOR RELATIONS BASED UPON MUTUAL INTEREST BETWEEN THE COMMUNITY AND ENERGY-PRODUCING COUNTRIES COMBINING THE ECONOMIC STRENGTHS OF THE PARTNERS.

6. THE COMMUNITY CONSTITUTES FOR THE MEDITERRANEAN AND MIDDLE EAST COUNTRIES THE ENTITY WHICH IS GEOGRAPHICALLY THE CLOSEST IN WHICH IS FOUND THE CAPITAL ASSETS, THE SERVICES (COMMERCIAL AND BROKERAGE NETWORKS, INSURANCE, BANKS AND TRANSPORTATION, ETC.) AND THE TECHNOLOGY NECESSARY FOR DEVELOPMENT. THE PRODUCERS WOULD FIND ABOVE ALL A NATURAL MARKET FOR THE ASSURED DISTRIBUTION OF THEIR FINISHED PRODUCTS AND RAW MATERIALS. THEY WOULD FIND ALSO INTERESTING POSSIBILITIES FOR INVESTING THEIR CAPITAL, FREQUENTLY IN THE SAME FIELDS WHICH USE THEIR PRODUCTS.

7. THE CONSIDERATIONS OF INTEREST TO THE COUNTRIES OF THE MEDITERRANEAN AND THE MIDDLE EAST APPLY EQUALLY TO OTHER PRODUCER COUNTRIES, EVEN IF THE PRINCIPAL EFFORT OF THE COMMUNITY MUST FOCUS, FOR THE TIME BEING, ON THESE REGIONS. THE OBJECTIVE FOR THE COMMUNITY WOULD BE TO OBTAIN A CONTRIBUTION FROM THE PARTNER COUNTRIES TO A STABLE ENERGY SUPPLY AT REASONABLE PRICES.

8. IT IS NOT A QUESTION OF A PROBLEM WHICH CAN BE SOLVED BY A SERIES OF BILATERAL AGREEMENTS HAVING THE APPEARANCE OF BARTER ARRANGEMENTS. THE PRICE LEVEL OF ENERGY IS A FUNDAMENTAL AND GENERAL PARAMETER FOR WORLD ECONOMIC EQUILIBRIUM; THE EVOLUTION OF RELATIONS BETWEEN DEVELOPED AND LESS DEVELOPED COUNTRIES DEPENDS UPON THIS TO A LARGE EXTENT. A POLICY OF COOPERATION WITH PRODUCER COUNTRIES THEREFORE WOULD BE WITHOUT FOUNDATION IF IT IS NOT ACCOMPANIED BY AN ACCEPTABLE SOLUTION TO THIS PROBLEM.

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PAGE 01 EC BRU 00520 02 OF 03 252127Z

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LIMITED OFFICIAL USE SECTION 2 OF 3 EC BRUSSELS 0520

9. IN EXCHANGE, THE COOPERATION WOULD ENABLE PRODUCER COUNTRIES TO PROGRESS MORE RAPIDLY WITH THEIR ECONOMIC AND INDUSTRIAL DEVELOPMENT AND WOULD GIVE ADDITIONAL POSSIBILITIES FOR PRODUCTIVE USE OF THEIR CAPITAL, WHETHER IN THE COMMUNITY OR LDCs. IN EFFECT, THE OIL-PRODUCING COUNTRIES ARE NOT ALL IN THE SAME SITUATION AND DO NOT ALL HAVE THE SAME ECONOMIC STRUCTURE. SOME OF THEM CAN FIND USE FOR THEIR ADDITIONAL RESOURCES IN THE DEVELOPMENT OF THEIR OWN ECONOMIES; OTHERS, LESS POPULATED, WILL FIND USE FOR AT LEAST PART OF THEIR ADDITIONAL REVENUE BY INVESTING IT ABROAD.

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PAGE 02 EC BRU 00520 02 OF 03 252127Z

10. HOWEVER, IT IS OF THE GREATEST IMPORTANCE TO AVOID COMPETITIVE OVER-BIDDING FOR THIS COOPERATION BETWEEN THE MEMBER STATES OF THE COMMUNITY AND BETWEEN THE COMMUNITY AND OTHER IMPORTING COUNTRIES.

11. THIS COOPERATION WILL MAKE NECESSARY THE TRANSFER OF CERTAIN PRODUCING ACTIVITIES OF THE COMMUNITY LEADING TO MODIFICATIONS OF CERTAIN ECONOMIC STRUCTURES, WHICH CAN LEAD TO PROBLEMS ON THE POLITICAL AND SOCIAL LEVEL FOR WHICH APPROPRIATE RESPONSES WILL HAVE TO BE FOUND. NEVERTHELESS, IT IS ONLY BY REINFORCING THE PARALLELISM OF INTERESTS THAT THE INSTABILITY OF CURRENT ECONOMIC STRUCTURES CAN BE OVERCOME. IN ADDITIONAL, THERE ARE OTHER REASONS WHICH APPEAL TO COMPANIES IN THE INDUSTRIALIZED COUNTRIES TO THINK OF TRANSFERS ABROAD; THIS CONCERNS, HOWEVER, AN EVOLUTION WHICH HAS ALREADY BEGUN.

12. COMMUNITY MEMBER STATES AS WELL AS ENERGY-PRODUCING COUNTRIES WOULD FIND IN COOPERATING ON THE COMMUNITY LEVEL, THE DOUBLE ADVANTAGE OF ECONOMIES OF SCALE FOR THEIR INDUSTRIAL PROJECTS AND AN INCREASED POLITICAL GUARANTEE. THE RISKS INHERENT IN EVERY OPERATION WOULD BE SPREAD OUT.

13. IN EXCHANGE FOR THE PROPOSALS FOR INDUSTRIAL COOPERATION PRESENTED BY THE COMMUNITY, THE OIL-PRODUCING PARTNERS MUST ASSUME A DOUBLE OBLIGATION. THEY MUST COOPERATE IN ESTABLISHING A SYSTEM PERMITTING ON THE ONE HAND UNRESTRICTED SUPPLY OF ENERGY PRODUCTS AND ON THE OTHER HAND FIXING OF PRICES ON THE BASIS OF REASONABLE CRITERIA. IN ADDITION, THEY MUST COOPERATE IN THE CREATION OF MECHANISMS FAVORING THE USE OF MONETARY RESOURCES NOT INVESTED IN THEIR ECONOMIES IN A WAY WHICH DOES NOT DISTURB THE MONETARY ORDER AND CONTRIBUTE TO ECONOMIC GROWTH OF LDCS IN PARTICULAR.

14. THE PROPOSED COOPERATION IMPLIES, ON THE PART OF THE COMMUNITY AND ITS MEMBER STATES, AN EFFORT TO ADD TO THE POSSIBILITIES OF COMMUNITY ACTION. OF COURSE, THIS WOULD NOT IMPLY MODIFICATION OF THE POLICY ADOPTED BY THE COMMUNITY ACCORDING TO WHICH IT WILL NOT CONCLUDE PREFERENTIAL AGREEMENTS OUTSIDE THE AREAS ALREADY DEFINED.

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PAGE 03 EC BRU 00520 02 OF 03 252127Z

15. IN ADDITION, THE ACTIONS UNDERTAKEN BY MEMBER STATES THEMSELVES WOULD HAVE TO BE COORDINATED AND PLACED IN A POLICY DEFINED AT THE COMMUNITY LEVEL. THE RULES WHICH WOULD BRING ABOUT THIS COORDINATION OF NATIONAL POLICIES WOULD HAVE TO BE DECIDED UPON IN THE FRAMEWORK OF THE PROCEDURE FOR CONSULTATION ON COOPERATION AGREEMENTS BETWEEN MEMBER STATES AND THIRD COUNTRIES, A PROCEDURE PROPOSED BY THE COMMISSION AND PRESENTLY UNDER DISCUSSION IN THE COUNCIL FRAMEWORK. THIS CONCERTATION AT THE LEVEL OF THE COMMUNITY WILL MAKE IT POSSIBLE TO AVOID OVERBIDDING BETWEEN THE MEMBER STATES, OVERBIDDING WHICH CAN ONLY LEAD TO ADDITIONAL COSTS.

16. THE ESSENTIAL TOOLS OF COMMERCE AND FINANCE, AS WELL AS TECHNOLOGICAL KNOWLEDGE AND SERVICES ARE IN THE HANDS OF ECONOMIC ENTITIES IN THE COMMUNITY COUNTRIES, FOR WHOM THE INSTITUTIONS OF THE COMMUNITY CANNOT BE SUBSTITUTED. FOR THIS REASON, THE AGREEMENTS TO BE CONCLUDED WOULD HAVE, ABOVE ALL, THE OBJECTIVE OF PROVIDING A FRAMEWORK FOR THE HARMONIOUS AND STABLE DEVELOPMENT OF COOPERATION BETWEEN THESE ECONOMIC ENTITIES IN THE COMMUNITY COUNTRIES AND THE PRODUCER COUNTRIES. TO THIS EFFECT, THE AGREEMENTS WOULD USE THE INSTRUMENTS AND MEANS ALREADY AT THE DISPOSAL OF THE COMMUNITY AS WELL AS CERTAIN MEANS WHICH HAVE BEEN UNDER STUDY FOR A LONG TIME BY COMMUNITY INSTITUTIONS. IT IS IMPORTANT, THEREFORE, THAT A DIALOGUE AND COOPERATION BASED ON TRUST BE SET UP BETWEEN THE AUTHORITIES OF THE COMMUNITY AND ECONOMIC ENTITIES IN THE COMMUNITY (INDUSTRIAL COMPANIES, SERVICE GROUPS, COMMERCIAL BANKS, COMMERCIAL AND BROKERAGE NETWORKS, ETC.), THE CONDITIONS OF THIS DIALOGUE AND OF THIS COOPERATION, WHICH AMONG OTHER THINGS SHOULD FAVOR JOINT ACTIONS BY THE ENTITIES OF THE DIFFERENT MEMBER STATES MUST BE PERFECTED.

17. THE FOLLOWING COMMUNITY PRACTICES PRESENTLY EXIST AND COULD BE UTILIZED IN THE FRAMEWORK OF THESE AGREEMENTS:

A) APPROPRIATE MEASURE OF COMMERCIAL POLICY, NOTABLY THOSE WHICH ARE BASED UPON THE SYSTEM OF GENERALIZED TARIFF PREFERENCES, OF WHICH THESE COUNTRIES ALREADY BENEFIT,

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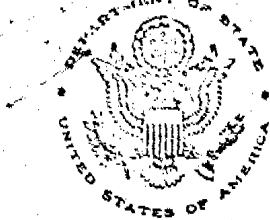
PAGE 04 EC BRU 00520 02 OF 03 252127Z

COULD FAVOR LONG-TERM ACCESS TO THE COMMON MARKET OF PRODUCTS EMANATING EITHER FROM JOINT VENTURES IN THE PRODUCING COUNTRIES OR FROM LONG-TERM CONTRACTS OR, AS A GENERAL RULE, FROM ACTIVITIES INVOLVING SOME FORM OF ECONOMIC INTEGRATION BETWEEN SUPPLIER AND CLIENT. IT WILL BE NECESSARY OF COURSE TO WATCH CLOSELY THAT ALL DISCRIMINATION IS AVOIDED BETWEEN OTHER LDCS AND OIL-PRODUCING COUNTRIES AND THAT THESE MEASURES DO NOT REDUCE IN ANY WAY THE ADVANTAGES WHICH THESE OTHER LDCS HAVE THE RIGHT TO EXPECT FROM THE SYSTEM OF GENERALIZED PREFERENCES;

B) MEASURES FACILITATING COMMERCIAL PROMOTION IN THE COMMUNITY OF THE ABOVE PRODUCTS;

C) MEASURES PROMOTING EXPORTS OF CAPITAL EQUIPMENT AND SERVICES FROM COMMUNITY INDUSTRIES TO PRODUCER COUNTRIES CARRIED OUT WITHIN THE FRAMEWORK OF THE DEVELOPMENT PLANS OF THE LATTER;

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PAGE 01 EC BRU 00520 03 OF 03 252137Z

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D) MEASURE STIMULATING INVESTMENT, SUCH AS:

- 1) THE BENEFIT THAT WOULD COME FROM THE "STATUTE FOR JOINT UNDERTAKINGS" DESCRIBED IN ARTICLES 45 AND 46 OF THE EURATOM TREATY;
- 2) THE ADVANTAGE OF DIRECT FINANCIAL SUPPORT FOR "PROJECTS OF COMMUNITY INTEREST" COVERING ACTIVITIES OF TECHNOLOGICAL DEVELOPMENT DIRECTLY TIED TO EXPLORATION, EXPLOITATION, STORAGE OR TRANSPORT OF HYDROCARBONS; AND

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PAGE 02 EC BRU 00520 03 OF 03 252137Z

3) THE EXTENSION OF THE ACTIVITY OF THE "MARRIAGE BUREAU" TO FACILITATE THE "MARRIAGE" OF COMMUNITY FIRMS WITH FIRMS ESTABLISHED IN PRODUCER COUNTRIES;

E) ACTIVITIES OF TECHNICAL COOPERATION, TIED FOR EXAMPLE TO THE PROFESSIONAL TRAINING OF STAFF AND QUALIFIED MANPOWER IN THE COMMUNITY; AND

F) THE PARTICIPATION OF PRODUCER COUNTRIES IN COMMUNITY RESEARCH WORK OF ACCESS TO ITS RESULTS.

18. OTHER COMMUNITY MEANS, CERTAIN OF WHICH HAVE ALREADY BEEN PROPOSED, SHOULD LIKEWISE BE ADOPTED TO FAVOR INVESTMENTS:

A) IN PRODUCER COUNTRIES, WITHIN THE FRAMEWORK OF THEIR OWN DEVELOPMENT; AND

B) IN THE COMMUNITY, WITH THE AIM OF USING IN A PRODUCTIVE MANNER THE SURPLUS OF THE BALANCE OF PAYMENTS OF THE PRODUCER COUNTRIES, FOR EXAMPLE -- BY PARTICIPATION IN THE PETROLEUM SECTOR (EXPLORATION, REFINING, DISTRIBUTION, AND PETROCHEMICALS), RESEARCH, THE DEVELOPMENT OF ALTERNATIVE ENERGY RESOURCES, AS WELL AS IN OTHER ECONOMIC SECTORS OF THE COMMUNITY.

19. THERE WILL BE EXAMINED:

A) INCREASING THE INSURANCE AGAINST POLITICAL RISKS FOR CERTAIN TYPES OF FINANCING WHICH DO NOT TAKE THE FORM OF DIRECT INVESTMENTS;

B) THE CREATION OF A COMMUNITY SYSTEM OF GUARANTEES AGAINST POLITICAL RISKS WHICH COULD BE SUBSTITUTED FOR NATIONAL SYSTEMS, NOTABLY IN CONNECTION WITH JOINT ACTIVITIES OF ENTREPRENEURS OF DIFFERENT NATIONALITIES; AND

C) WITHOUT PREJUDICING ANALOGOUS ACTIONS WHICH COULD BE UNDERTAKEN IN A LARGER CONTEXT, INTERVENTION BY THE EUROPEAN INVESTMENT BANK WITH A VIEW TO FACILITATING FINANCING OF INVESTMENTS PARTICULARLY IN LDCS, WHILE AT

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PAGE 03 EC BRU 00520 03 OF 03 2521372

THE SAME TIME OFFERING INTERESTING CONDITIONS FOR INVESTMENT OF ACCUMULATED CAPITAL BY PRODUCER COUNTRIES.

20. IN THIS CONTEXT, IT IS NECESSARY TO FOCUS ON THE PROBLEMS LINKED WITH RECIPROCAL GUARANTEES OF INVESTMENTS, NOTABLY FOR COMMON ENTERPRISES WHICH WILL BE CREATED IN THE FRAMEWORK OF COOPERATION. THE PARTNER COUNTRIES, AS WELL AS THE ENTITIES OF THE COMMUNITY, SHOULD FIND A POLITICAL GUARANTY IN THE VERY FACT OF THE CONCLUSION OF THESE AGREEMENTS. THE ECONOMIC ENTITIES WILL DEMAND NEVERTHELESS FROM EACH OTHER A CONCRETE GUARANTEE AGAINST THE POLITICAL RISK TO WHICH THEIR INVESTMENTS ARE SUBJECT. IT IS NECESSARY, THEREFORE, TO TAKE A RAPID DECISION ON THE COMMUNITY SYSTEM OF INVESTMENT GUARANTEES WHICH HAS BEEN UNDER DISCUSSION FOR SOME TIME IN THE COUNCIL FRAMEWORK. AT THE SAME TIME, THIS INDUSTRIAL COOPERATION WILL IMPLY THE CONCLUSION OF CONTRACTS OF GREAT IMPORTANCE WHETHER FOR MATERIALS OR SERVICES OR FOR FINANCIAL TRANSFERS. IT IS EQUALLY IMPORTANT, THEREFORE, TO DECIDE RAPIDLY ON THE HARMONIZATION OF THE CONDITIONS FOR INSURANCE CREDIT AND EXPORT CREDIT.

21. THE COMMISSION IS AWARE THAT DECISIONS IN THIS AREA AT THE COMMUNITY LEVEL WILL REQUIRE MORE TIME. IT CONSIDERS THAT WITHOUT WAITING FOR THESE DECISIONS, THE AGREEMENTS TO BE CONCLUDED MUST HOWEVER CONTAIN THE RECIPROCAL COMMITMENT OF THE PARTIES NOT TO DISTURB THE PROPER EXECUTION OF CONTRACTS CONCLUDED BETWEEN THEIR RESPECTIVE ENTITIES AND RECOGNIZED AS BEING IN THEIR MUTUAL INTEREST.

22. MIXED COMMISSIONS MUST OVERSEE THE PROPER OPERATION OF THE AGREEMENTS, PERMIT CONSULTATION AND EXCHANGE OF INFORMATION -- NOTABLY ON THE DEVELOPMENT OF PRICES AND OF PROBLEMS OF BALANCE OF PAYMENTS, OF PRODUCTION, OF CONSUMPTION AND OF REFINING, EXAMINE AND PROPOSE DEFINITE COMMITMENTS OF MUTUAL INTEREST, AND THUS CONSTITUTE AN APPROPRIATE FRAMEWORK FOR COOPERATION BASED UPON MUTUAL INTEREST AND UNDERSTANDING.

23. THE THOUGHTS REGARDING ENERGY SUPPLY ARE EQUALLY VALID FOR OTHER ESSENTIAL BASIC RAW MATERIALS. IN FACT, THESE RAW MATERIALS ARE LIKEWISE HELD IN LARGE PART BY OTHER

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PAGE 04 EC BRU 00520 03 OF 03 252137Z

LDCS. THE COMMUNITY'S POLICY OF COOPERATION AND DEVELOPMENT MUST TAKE THIS INTO ACCOUNT.

24. CONCLUSION. IN VIEW OF THE PRECEDING, THE COMMISSION REQUESTS THE COUNCIL TO AUTHORIZE IT TO MAKE KNOWN TO THE OIL-PRODUCING COUNTRIES, THROUGH THE MISSIONS OF THESE COUNTRIES ACCREDITED TO THE COMMUNITIES, THAT THE COMMUNITY AND ITS MEMBER STATES, ACTING JOINTLY, ARE DISPOSED TO OPEN NEGOTIATIONS ON ECONOMIC, INDUSTRIAL, TECHNICAL, TECHNOLOGICAL, AND COMMERCIAL COOPERATION AGREEMENTS, THE CONTENTS OF WHICH HAVE BEEN DEVELOPED IN GENERAL GUIDELINES IN PARAGRAPHS 17 THROUGH 32 OF THIS DOCUMENT, AND TO INVITE IT (THE COMMISSION) TO HAVE EXPLORATORY CONVERSATIONS WITH THE COUNTRIES WHO EXPRESS THEIR INTEREST IN DOING SO. THE SAME APPROACH WOULD INCLUDE THE ENLARGEMENT OF AGREEMENTS PRESENTLY IN EXISTENCE OR UNDER DISCUSSION WITH OIL-PRODUCING COUNTRIES. END TEXT. GREENWALD

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